Morning Note

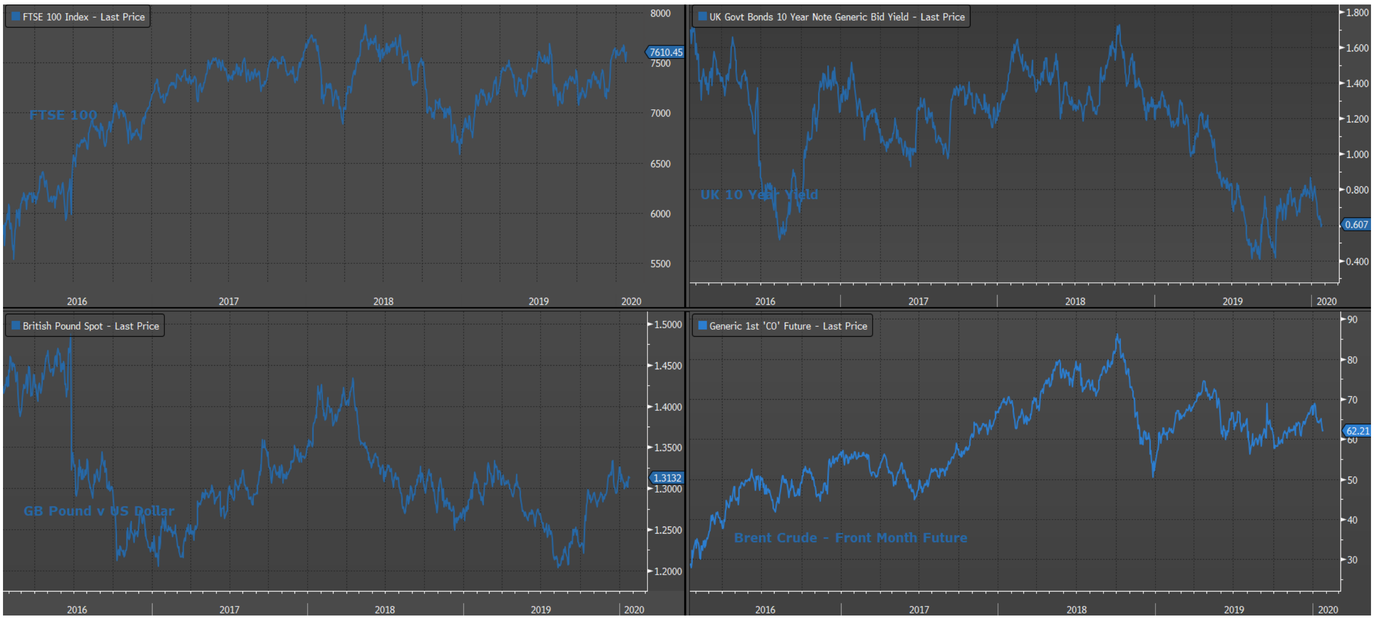
24-Jan-20

Market News

US equities recovered early losses to end last night's session slightly higher: S&P 500 (+0.1%); Nasdaq (+0.2%). On the positive side, corporate earnings have been a positive, offset by the continued concerns over coronavirus. Intel rallied after hours following positive results. In Asia, markets were mixed: Nikkei 225 (+0.1%); Hang Seng (-1.1%); Shanghai Composite (closed for holiday). The FTSE 100 is currently trading 1.4% higher at 7,610.

The euro stayed near a seven-week low versus the dollar in the wake of yesterday's dovish remarks by Christine Lagarde. At the same time, new bond sales in Europe are off to the best-ever start to a year, breaking through €200bn in record time, according to data compiled by Bloomberg. Sovereign borrowers have led the splurge, with Ireland, Italy, and Spain joined by Chile, the Philippines, and Romania.

The latest Japanese flash manufacturing PMI rose to its highest level since August, as confidence edged up in the wake of easing US-China tensions. Core inflation was in line as it rose to its highest level since May. However, implications were limited with the BOJ reaffirming its intensions in the December minutes to maintain current policy settings.



Source: Bloomberg

Company News

Proctor & Gamble is a global consumer good company with annual sales of $67.7bn across a broad range of iconic brands including Head & Shoulders, Gillette, Crest, Ariel, and Pampers. The group generates around 45% of its sales in North America, 23% in Europe, and the remainder in emerging markets.

Yesterday lunchtime, the group released results for the second quarter of its June 2020 financial year. Although the outcome was slightly below the market expectation in terms of sales, it was better in terms of earnings, and the group raised its full-year guidance.

In the three months to 31 December 2019, net sales grew 5% to $18.2bn. Organic growth was also 5%, slightly below the market forecast of +5.6%. Growth was driven predominantly by volume (+3%), with price and positive mix both adding 1%.

By division, Fabric Care & Home Care (33% of sales) grew by 5%, driven by premium products, partially offset by retailer inventory decreases in Japan. Baby, Feminine & Family Care (27% of sales) grew 1%, held back by competitive activity and category contraction in certain baby care markets. Beauty (19% of sales) grew 8%, with Skin and Personal Care increasing by double digits driven by premium innovation and increased pricing. Health Care (12% of sales) grew 7%, with personal health care brands driving growth. Grooming (9% of sales) grew 4%, driven by growth in Appliances.

On a currency-neutral basis, core gross margin increased by 210 basis points to 51.6%, driven by productivity savings (120 bps), pricing benefit (40 bps), commodity cost decreases (70 bps), other items (20 bps), partially offset by unfavourable product mix (-40 bps). The operating margin increased by 190 bps to 24.7%, as the gross margin increase was offset by higher SG&A expenses. Core EPS grew 15% at constant currency to 142c, ahead of the 137c market forecast.

Operating cash flow was $4.4bn and free cash flow productivity was 100%. The company returned $5.4bn of cash to shareholders through $1.9bn in dividend payments and $3.5bn of share repurchases. For the full year, the company now expects to pay over $7.5bn in dividends (as before) and repurchase $7bn-$8bn of shares (vs. $6bn-$8bn previously).

Following a strong first half of its financial year to June 2020, the group has raised its full-year guidance to organic sales growth of 4%-5% (vs. 3%-5% previously) and core EPS growth of 8%-11% (from 5%-10% previously). The shares, which have been strong over the last 18 months and currently trade on a PE of 23x, were little changed in US trading hours last night.

Source: Bloomberg

Rémy Cointreau is a global alcoholic beverages business, with iconic brands including Rémy Martin, Cointreau, Metaxa, and Islay Spirits. The group's strategy is to move upmarket through portfolio streamlining at the expense of low-end products, adaptation of its distribution network, and expiration of distribution agreements with partner brands. The target is to become the world leader in 'exceptional spirits' – described as retailing at more than $50. As a result, the business plays well to the increased global demand for premium and luxury products.

This morning, the group has released a subdued trading update for the three months to end December 2019. During the period, the group generated sales of €290m, down 11.3% in organic terms, well below the market forecast for a 6% decline. In the first nine months of this financial year, this leaves revenue down 6.5% in organic terms.

The Group Brands division (97% of sales) fell by 7.2% in organic terms in the latest quarter and by 1.0% over the nine-month period as the group faced tough year-on-year comparatives – last year, revenue increased by 10.3%. Within the division, the House of Rémy Martin saw a revenue decline of 1.6% over the nine-month period, which accelerated to -7.6% in the last quarter. Strong momentum in China was offset by a number of cyclical factors such as a decline in tourism in Hong Kong, slow stock replenishment in the US, and changes in the distribution network consistent with the group's upscaling strategy. Liqueurs & Spirits posted modest growth of 0.7% over the nine-month period but fell by 6.1% in the latest quarter due to disruptions caused by changes in the distribution network in Europe. Within the portfolio, the House of Cointreau delivered a solid performance, while The Botanist continued to enjoy double-digit growth.

Partner Brands continued to decline, by 61% in the last quarter and 68% year to date, due to the termination of large distribution contracts with third-party brands. This is in line with the group's strategy to gradually refocus on

Group Brands. For FY2020, the termination of these contacts will have an impact of €56m on sales and €5m on operating profit.

Looking forward, and given the change in General Management, the group decided to hold off from providing annual and mid-term objectives. This comes as a disappointment, with the company not expected to provide guidance until its annual results in June. In response, the shares have been marked down by 9% this morning.

Source: Bloomberg